1999

International Sovereign Energy Corp.

Annual Report

Corporate Profile

International Sovereign Energy Corp. is a Canadian based publicly traded exploration and development company with offices in Calgary, Vancouver and Pakistan active in the acquisition, exploration and development of reserves in Western Canada and internationally.

The Company, incorporated in 1992, owns and operates producing oil and gas properties in Western Canada and continues to expand this production base through the acquisition and exploitation of high quality long life producing properties through infill drilling and field optimization programs. The Company balances this conservative approach to growth by targeting late stage exploration or early stage development international opportunities, focusing its efforts in North and West Africa, the Middle East and the Indian subcontinent.

By maintaining a quality production base domestically while targeting opportunities with world class reserve potential internationally, the management of International Sovereign is committed to delivering to its shareholders growth commensurate with world class reserve additions.

The shares of International Sovereign Energy Corp. are publically traded on the Canadian Venture Exchange under the symbol "ISR". At year end 1999, the Company had 32,213,565 shares issued and outstanding. Subsequent to the year end the Company consolidated the stock on a 1:5 basis which precipitated the name change from Constellation Oil & Gas Ltd. and resulted in 6,442,713 shares issued and outstanding.

Annual Meeting

The Annual General Meeting of Shareholders of International Sovereign Energy Corp. will be held on Wednesday, June 14, 2000 at 2:30 p.m. in the Room Mouton Rothschild at the Sutton Place Hotel located at 845 Burrard St., Vancouver, British Columbia. Shareholders and members of the public who are interested in receiving more information on the Company are encouraged to attend.

Contents

Abbreviations

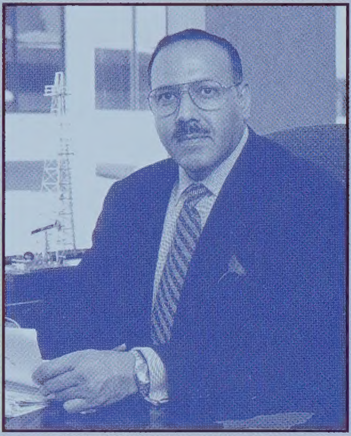
M	thousands
bbls/d	barrels per day
Mcf	thousands of cubic feet
bopd	barrels of oil per day
MM	Millions
BOE	barrel of oil equivalent
Mmcf	Millions of cubic feet (1 bbl = 10 Mcf)
bbl	barrel
ARTC	Alberta Royalty Tax Credit
NGLs	natural gas liquids
BTU	British Thermal Unit

1999

Highlights - Year in Review

	1999	1998
Operating		
Production		
Oil (bbls)	76,726	41,068
Per Day	210	113
Natural Gas (Mcf)	208,756	318,307
Per Day	572	872
Proven and Probable Reserves		
Oil & NGLs (Mbbls)	907	1,027
Natural Gas (Mmcf)	3,734	2,152
Average Price Received		
Oil ($ per bbl)	22.36	15.26
Natural Gas ($ per Mcf)	2.47	2.00
Financial		
Gross Revenue	$ 2,254,754	$ 1,282,966
Cash Flow	975,130	115,321
Per Share	0.03	0.01
Net Income (Loss)	112,314	(367,175)
Per Share	0.00	(0.01)
Capital Expenditures	803,993	1,737,723
Acquisitions	1,555,782	1,373,000
Divestitures	311,321	1,621,178
Long Term Debt	nil	nil
Net Asset Value	8,116,518	6,544,985
Per Share	$ 0.25	$ 0.20
Class A Common Shares Outstanding at Year End	32,213,565	32,213,565

Letter to Shareholders



Lutfur Rahman Khan
Chairman of the Board

On behalf of the Board of Directors I am pleased to report to the Shareholders of International Sovereign Energy Corp. the results of our year ending December 31, 1999.

During the past year, International Sovereign continued with its long term business plan which focuses on a conservative approach in expanding its Western Canadian production base, balanced by an aggressive effort internationally which targets projects with large reserve potential currently in the late stages of exploration or the early stage of development.

On the domestic front, the Company has been very successful in adding value by further developing its existing properties as well as exploiting new properties purchased this past year. Early in 1999, work-overs and re-completions of the Company's shut-in heavy oilwells on its Marwayne property resulted in a 25% increase over the production rate at the time of shut-in. An additional two well locations are currently being evaluated on the property with drilling anticipated to commence late in the second quarter. Optimization of long life producing properties purchased in the fourth quarter of 1999 resulted in a 42% increase in production from the date of acquisition while production increases through optimization on an acquisition made in late 1998 are up 40% from the closing date.

Our strategy of acquiring and exploiting high quality long life producing properties for growth in Western Canada has been very successful to date. Production increases, combined with a return to more robust oil prices experienced during the latter half of the year and a reduction in G&A resulted in more than a seven fold increase in cash flow over the previous reporting period. With the expectation that commodity prices will remain firm for the upcoming year and having a more substantial production base, the Company is now in a position to accept more risk in its domestic growth strategy. As a result, International Sovereign's cash flow allows for a substantial increase in its capital program for the upcoming year.

Internationally, we have progressed favorably in our efforts to secure high quality projects in Pakistan as well as North and West Africa.

In Pakistan, where the Company has established a field office, negotiations are continuing on a multi well farm-in on two late stage exploration concessions currently held by an independent producer. In addition, we are in discussions with both the Ministry of Petroleum of Pakistan and Oil & Gas Development Corporation of Pakistan to acquire interests in both producing properties and exploration concessions. We look forward to reporting on the successful conclusion of these negotiations in the very near future.

In North Africa, the Company has been invited to review and evaluate select late stage exploration oil and gas opportunities which have been made available to it. In West Africa, International Sovereign has been invited to participate in the development of a producing concession as well as to review and evaluate available exploration blocks. Technical and economic evaluation of these projects is currently underway.

I wish to thank our shareholders for their support and patience in allowing the Company the necessary time to evaluate and develop the international projects which will have the most potential for a positive impact on the Company. International opportunities require perseverance and unique expertise in order to realize on the lucrative economic benefit to our shareholders. I look forward to updating you on our successful progress on several fronts in the upcoming months.

Lutfur Rahman Khan
Chairman of the Board
April 19, 2000

Operations Review

Domestic

During 1999, management focused on increasing the Company's production through re-completion and optimization programs on its existing properties as well as acquisition of additional underdeveloped properties having high net-back long life reserves.

Early in the year, the Company completed a very successful work-over and re-completion program on its Marwayne property in east-central Alberta. International Sovereign also benefitted from substantial production increases at Red Earth, which was acquired in late 1998, as well as significant production increases resulting from optimization programs on recently acquired properties at Clarke Lake and Inga in northeastern British Columbia.

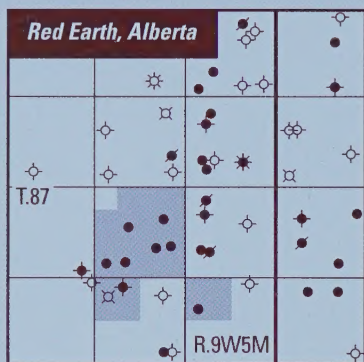
Along with its continued implementation of this low risk growth strategy for western Canada in the upcoming year, the Company also plans to participate in several medium to low risk drilling opportunities.

(L to R) Javaid Shahid - *Accountant*
Sherry Campbell - *Controller*
Fran Hammel - *Accounts Payable*

International

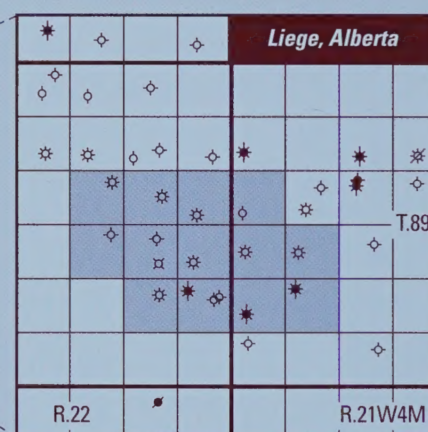
The Company has been very active during the year evaluating opportunities made available to it in North and West Africa as well as the Indian sub-continent. Management has focused its efforts during the latter half of the year on developing relationships and establishing a presence in Pakistan. The Company has opened a field office in Pakistan and is currently evaluating certain projects associated with the privatization of Pakistan's oil and gas sector as well as negotiating a potential farm-in which would involve a multi well commitment.

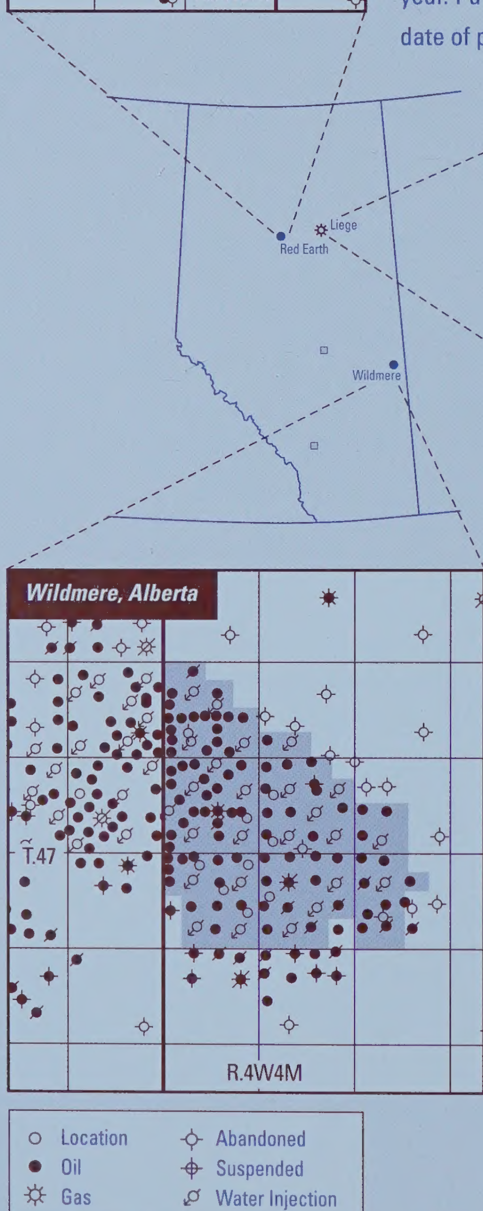
1999



Red Earth, Alberta

International Sovereign purchased the Red Earth property towards the close of 1998. At that time, production from this acquisition was approximately 28 bopd net to the Company while WTI oil prices hovered in the low teens. During 1999 production gains were realized through workovers and pump optimization resulting in a 40% increase in production. Increased production combined with strong oil prices have resulted in a tripling of cash flow from this property over the course of the year. Payout of the acquisition is expected to occur within 18 months of the date of purchase.



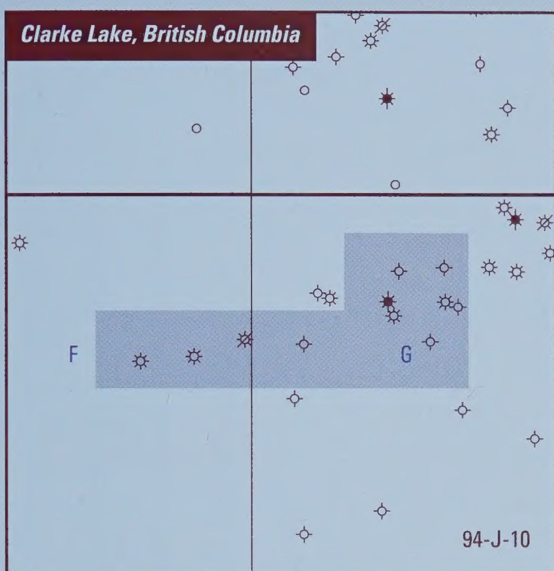


Liege, Alberta

At Liege in northeastern Alberta, the Company purchased a 10% working interest in 8,320 acres of land and six producing gas wells, two suspended wells and one disposal well. The property forms part of a pool which has produced over 20 bcf to date and adds approximately 150 Mcf/d net to International Sovereign's interest of stable gas production.

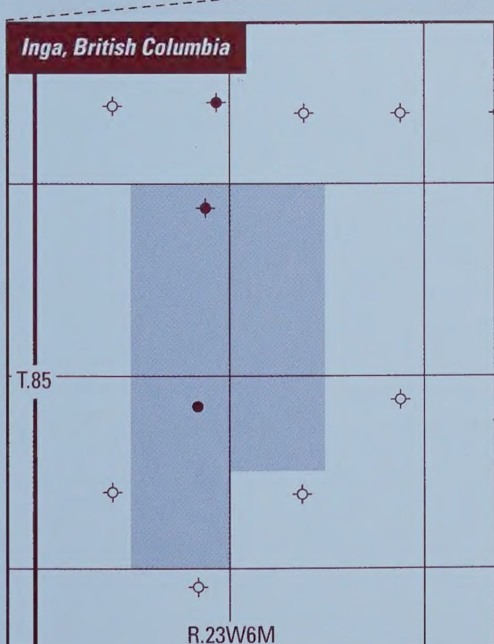
Wildmere, Alberta

The Company owns a 2.7934% working interest in the Wildmere Lloydminster "A" Pool Unit No. 1 containing gross remaining proven producing reserves of 10.4 MMSTB. An additional 2.3 MMbbls of gross proven undeveloped reserves are assigned to our 2000 infill drilling program. A total of 16 infill wells were drilled during 1998, with an additional 21 producers and 5 injectors planned for the first half of 2000.



Clarke Lake, British Columbia

International Sovereign owns a 25% working interest in two producing gaswells and various working interests in 5,329 acres of land, two suspended gaswells and one water disposal well, all in the Slave Point "A" Pool, which to date has produced over 1.6 trillion cubic feet of gas. At the time of acquisition, this property was producing 2,170 Mcf/d gross from the c-52-F well. Production from the property was increased by approximately 20% with the successful December workover and re-activation of the c-54-F well which has added an additional 440 Mcf/d gross.



Inga, British Columbia

At Inga in northeastern British Columbia, the Company acquired a 75% interest in 489 acres of land containing one oilwell which had recently been shut in due to mechanical problems. Subsequent to year end a work-over was carried out on the well and production was re-established at 35 bopd, up 119% from the 16 bopd prior to shut-in. The Company is currently evaluating a potential offset location to this well.

Production and Reserves

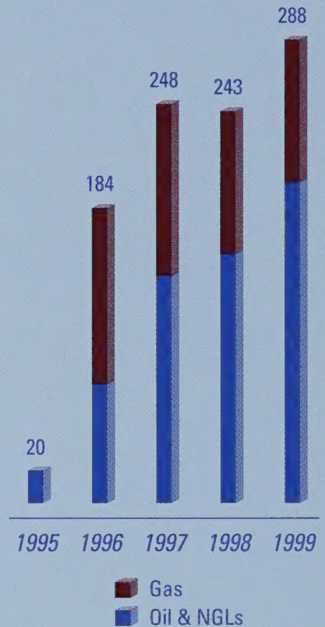
Production

International Sovereign's production exited 1999 at 288 BOE/D, up 18.5% over the 1998 exit rate. Average oil production for the year was up 86% over 1998 levels to 210 bopd.

Average gas production for the year declined from 872 Mcf/d to 572 Mcf/d, primarily as the result of the depletion of a single well Colony pool owned 100% by the Company in the Killam area of east central Alberta. By the end of the year gas production had been restored to 878 Mcf/d, remaining essentially flat to last year's exit rate.

The Company has worked to build a very high quality production base which is reflected in our reserve life index of approximately 12.3 years for oil and 11.6 years for gas based on the year end exit rates. This is further supported by operating costs of $4.60/BOE which is at the low end of industry norms.

Production
(Year End Exit Rates)
(BOE/D)



Acquisitions and Divestitures

Late in the fourth quarter of the reporting period, International Sovereign completed the acquisition of a package of quality producing properties located primarily in Northeastern British Columbia for $1,550,000 which netted the Company 77 BOE/D. By the end of the first quarter 2000, production from these assets had been increased 43% to 110 BOE/D. Payout of the acquisition is expected to be significantly reduced due to higher than expected revenues resulting from the increased production rates combined with the highest commodity prices received in the past twenty years.

The Company divested itself of a low working interest, high operating cost oil property located at Minton in southwestern Saskatchewan for approximately $250,000. Production declines from the sale of this property, which netted International Sovereign 26 bopd was more than offset by production increases through optimization associated with the acquisition. In addition, the Company divested of some minor interests in the Maple Glen Gas Unit in eastern Alberta to the operator of the property.

Reserves

The Company's proved plus probable reserve base remained essentially flat, showing a 3% increase over 1998 after accounting for the year's production. Of the Company's oil & NGLs reserves, 81% are classified as proved while 91% of the gas reserves fall into the proved category. Oil accounts for 71% of the reserve base versus 83% in 1998.

The Company's proven and probable reserves before royalties as evaluated by the independent firm of Chapman Petroleum Engineering Ltd. as at January 1, 2000 are represented in the table below (left). The adjacent table to the right represents the discounted present value of those reserves. International Sovereign reported a 45% growth in reserve value when comparing the Present Value before tax discounted at 15% to the previous year. The January 1, 2000 oil and natural gas price estimates used by Chapman Petroleum Engineering Ltd. shown in the table below account for only a very minor portion of the value fluctuations as the forecast does not vary significantly with the previous year. The bulk of the increased value is due to the sale of a high operating cost oil property and the acquisition at excellent value of several long life properties weighted primarily to gas, together with significant production optimization results on existing properties.

Present Value of Reserves

$ Thousands

Present Value, before tax, discounted at	10%	15%
Proven	9,649	7,897
Probable	1,018	658
Total	10,667	8,555

Note: Values include ARTC

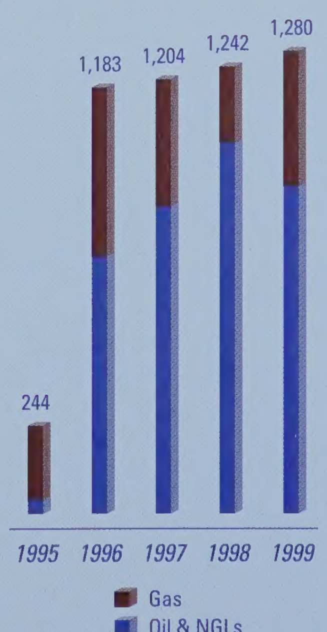
Reserves

	Proven	Probable	Total
Gas (MMCF)	3,397	337	3,734
Oil (Mbbls)	705	176	881
NGLs	26	0	26
Total (MBOE)	1,070	210	1,280

Pricing

	Crude Oil Edm. Light Sweet ($ Cdn. per bbl)		Gas Reference Price ($ Cdn. per MMBTU)	
	Effective 1/1/00	Effective 1/1/99	Effective 1/1/00	Effective 1/1/99
2000	29.37	25.05	2.50	2.50
2001	28.63	27.27	2.58	2.50
2002	30.11	29.49	2.65	2.50
2003	31.01	31.34	2.73	2.63
2004	31.94	32.91	2.81	2.76
2005	32.90	34.55	2.90	2.89
2006	33.89	36.28	2.99	3.04
2007	34.91	38.09	3.07	3.19
2008	35.95	40.00	3.17	3.35
2009	37.03	42.00	3.26	3.52
2010	38.14	44.10	3.36	3.69

Proven + Probable Reserves
(MBOE)

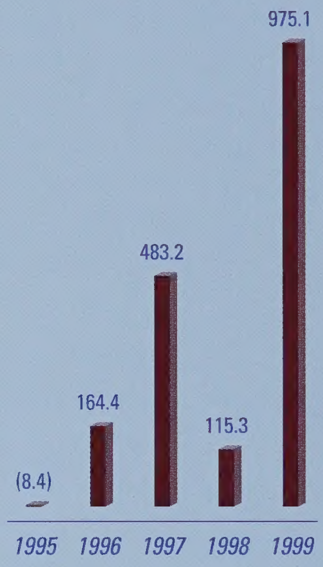


Management's Discussion and Analysis

Production and Revenue

Revenues for the reporting period were $2,254,754, an increase of 76% over 1998. This increase was due to significantly higher prices received for oil and gas sales, particularly in the latter part of the year and also to the acquisition of certain producing properties from a junior producer which was effective November 1, 1999. Also, with the recovery of oil prices towards the end of the first quarter of 1999 the Company operated Marwayne heavy oil property was put back on production, commencing March 1, 1999. Corporate revenues were split 77% from oil sales and 23% from the sale of natural gas while average daily production was 210 bopd and 572 Mcf/d as compared to 113 bopd and 872 Mcf/d in the prior year. The yearly average gas production decrease was attributable to the depletion of the Colony zone in the 6-36-46-12W4M well which was owned 100% by the Company. The average price received for oil in 1999 was up 47% to $22.36 per barrel compared to the $15.26 per barrel received for 1998. The average natural gas price received increased 24% over 1998 from $2.00 per Mcf to $2.47 per Mcf.

Cash Flow
($ Thousands)



Royalties

Royalties, net of Alberta Royalty Tax Credit, increased 35% to $197,885, attributable mainly to increased production volumes and a decrease in the Alberta Royalty Tax Credit rate in the last quarter. The effective royalty rate decreased between 1999 and 1998 from 11% of sales to 9% of sales. This was mainly due to the favorable royalty rates charged to the Marwayne wells which were re-worked and re-completed and put back on production.

Operating costs

Operating costs totaled $449,040 for the year, which equates to $4.60 BOE, down 21% on a per unit basis from the previous year due to the continued rationalization of high operating cost properties.

General and Administrative

Total general and administrative expenses, net of recoveries decreased from $642,813 in 1998 to $603,194 for the reporting period as the result of consolidating certain duties allowing for fewer administrative staff.

Interest

The 1999 interest expense of $29,505 increased from that of $10,047 in 1998 due to having to draw upon the operating line of credit in November of this year to close the previously noted property purchase.

Depletion, Depreciation and Site Restoration

Total depletion, depreciation and site provision was $684,503 as compared with $477,859 in 1998. This increase was due primarily to production increases associated with property acquisitions, shut-in heavy oil wells being re-worked and coming back on production and an increase in production from the Red Earth property.

Capital Expenditures

Total capital expenditures for the year were $2,359,775. Of this amount, $1,550,000 was spent on the acquisition of properties, with most of the balance being spent on operations (re-completions, workovers and abandonments) on 13 (6.14 net) wells. Total divestitures amounted to $311,320.

Financial Position

At the end of the reporting period International Sovereign had undrawn lines of credit of $322,000 on a $1,200,000 credit line. Subsequent to year end, the Company's line of credit was increased to $3,200,000 based on increases in value and quality of reserves.

Business Risks

The oil and gas industry is subject to numerous risks, including commodity prices, interest rate and exchange fluctuations as well as environmental concerns and the success of future drilling. International Sovereign attempts to reduce and manage those risks which are controllable.

Safety and Environmental

Safety and Environmental concerns are addressed through a corporate contingency plan and by continued emphasis on complying with environmental legislation.

Management's Report

To the Shareholders of International Sovereign Energy Corp.:

The information contained in this annual report and the accompanying financial statements and other financial information as well as the financial reporting process that produces such statements is the responsibility of Management.

Management maintains a system of internal controls designed to reasonably assure that transactions are appropriately authorized, that relevant and reliable financial information is produced in a timely manner, and that the assets of the Corporation are adequately safeguarded.

The Management of the Company has the responsibility for the integrity and objectivity of the information contained in this annual report, and to ensure that the operating information presented throughout this annual report is consistent with that shown in the financial statements, which are prepared by Management in accordance with generally accepted accounting principles.

The external auditors, appointed by the shareholders of the Company have examined the financial statements in order to provide an independent view as to the fairness of reported operating results and financial condition.

The Audit Committee of the Board of Directors which consists primarily of non-management directors has reviewed the financial statements including notes thereto, with management and has reported to the Board of Directors.

The financial statements, upon the recommendation of the Audit Committee, have been approved by the Board of Directors.

Lutfur Rahman Khan
Chairman, President & CEO

Auditors' Report

To the Shareholders of International Sovereign Energy Corp. (formerly Constellation Oil & Gas Ltd.):

We have audited the balance sheets of **International Sovereign Energy Corp. (formerly Constellation Oil & Gas Ltd.)** as at December 31, 1999 and 1998 and the statements of earnings (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP

"Deloitte & Touche LLP"
Chartered Accountants

Calgary, Alberta
February 25, 2000

Balance Sheet

As at December 31,	1999 $	1998 $
Assets		
CURRENT		
Cash and short-term investments	–	429,649
Accounts receivable	**503,619**	611,389
Prepaid expenses and deposits	**8,175**	57,074
	511,794	1,098,112
Property and equipment (Note 3)	**7,315,956**	5,952,006
	7,827,750	7,050,118
Liabilities		
CURRENT		
Bank indebtedness	**33,037**	–
Accounts payable and accrued liabilities	**7,710**	306,741
Operating loan (Note 4)	**828,000**	75,000
	868,747	381,741
Future income tax liability (Note 5)	**1,043,362**	870,392
Site restoration and abandonment provision	**105,529**	100,187
	2,017,638	1,352,320
Shareholders' Equity		
Share capital (Note 6)	**6,233,434**	6,233,434
Deficit	**(423,322)**	(535,636)
	5,810,112	5,697,798
	7,827,750	7,050,118

APPROVED BY THE BOARD

Dr. Asif Ali Syed
Director

Dr. Waseem Rahman
Director

Statement of Earnings (Loss) and Deficit

For the Years Ended December 31,	1999 $	1998 $
REVENUE		
Petroleum and natural gas revenues	2,254,754	1,282,966
Royalties, net of ARTC	(197,885)	(146,797)
Other income	–	54,425
	2,056,869	1,190,594
EXPENSES		
Operating costs	449,040	422,413
General and administrative	603,194	642,813
Interest	29,505	10,047
Depletion and depreciation	684,503	477,859
Site restoration	5,342	16,136
	1,771,584	1,569,268
EARNINGS (LOSS) BEFORE INCOME TAXES	285,285	(378,674)
FUTURE INCOME TAXES (Note 5)	172,971	(11,499)
NET EARNINGS (LOSS)	112,314	(367,175)
DEFICIT, BEGINNING OF YEAR	(535,636)	(168,461)
DEFICIT, END OF YEAR	(423,322)	(535,636)

Statement of Cash Flows

For the Years Ended December 31,	1999 $	1998 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	**112,314**	(367,175)
Adjustments for:		
Depletion and depreciation	**684,503**	477,859
Site restoration	**5,342**	16,136
Future income taxes (recovery)	**172,971**	(11,499)
	975,130	115,321
Changes in non-cash working capital	**(142,362)**	140,030
	832,768	255,351
FINANCING		
Increase in operating loan	**753,000**	75,000
Proceeds from exercise of stock options	–	41,400
	753,000	116,400
INVESTING		
Additions to property and equipment	**(2,359,775)**	(1,737,723)
Proceeds on sale of property and equipment	**311,321**	1,621,178
	(2,048,454)	(116,545)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(462,686)**	255,206
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**429,649**	174,443
CASH AND CASH EQUIVALENTS, END OF YEAR	**(33,037)**	429,649

Notes to the Financial Statements

Years Ended December 31, 1999 and 1998

1. *Significant Accounting Policies*

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and practices.

Basis of presentation

The financial statements at December 31, 1998 include the accounts of International Sovereign Energy Corp (formerly Constellation Oil & Gas Ltd.) (the "Company") and its wholly-owned subsidiary, Monterey Energy Corp. ("Monterey"). Effective January 1, 1999, Monterey was amalgamated into the Company.

Cash and cash equivalents

Cash and cash equivalents includes cash and short-term investments with a maturity of 90 days or less at the time of issue.

Statement of cash flows

Section 1540 of the handbook of the Canadian Institute of Chartered Accountants ("CICA") was adopted for the year ended December 31, 1999. This section requires that transactions which do not require the use of cash or cash equivalents be excluded from the cash flows statement. Cash flow information presented for the year ended December 31, 1998, shown for comparative purposes, has been restated to conform to these requirements.

Property and equipment

The Company follows the full cost method of accounting for oil and gas operations as prescribed by the Canadian Institute of Chartered Accountants. All costs related to exploration and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling productive and non-productive wells and overhead charges related directly to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproven properties are excluded initially from costs subject to depletion. These unproved properties are assessed regularly to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. This is the aggregate of future net revenues from estimated proved reserves and the costs of unproved properties, net of impairment allowances, less future general and administrative costs, financing costs, site restoration and abandonment costs, and income taxes. Future net revenues are estimated using year-end prices and all costs are assumed to be constant.

Capitalized costs, including the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated proven reserves before royalties, determined by independent petroleum engineers. Oil and gas reserves and production are converted into equivalent units based upon estimated relative pricing content at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Site restoration and abandonment

The estimated cost for future site restoration and abandonment is provided on the unit-of-production method based on the estimated remaining proven reserves and is included in site restoration expense. Estimates are prepared by the Company's engineers based on current costs and regulations in effect at the balance sheet date. Actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Joint venture accounting

A portion of the Company's exploration and production activities is conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Financial instruments

The carrying values of accounts receivable, accounts payable and operating loan approximate the fair value of these financial instruments due to the short-term maturity of these instruments.

Stock based compensation plan

The Company has a stock based compensation plan, which is described in Note 6. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings.

Future income taxes

The Company has adopted, on a retroactive basis, the new accounting recommendation of the Canadian Institute of Chartered Accountants "Income Taxes". Under this method, future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax basis. Income tax expense (recovery) is computed based on the change during the year in the future tax assets and liabilities. Effects of changes in tax laws and tax rates are recognized when enacted.

2. *Acquisition*

Effective August 24, 1998, the Company acquired all of the issued and outstanding common shares of Monterey for consideration of $1,227,417 comprised of 9,441,667 of the Company's common shares which had a market value of $0.13 per common share. The $1,251,214 is a non-cash item and accordingly, has been excluded from the statement of cash flows. Monterey was 45.86% owned by two directors and two officers of the Company. The acquisition has been accounted for by the purchase method. Details of the assets acquired are as follows:

	1998 $
Petroleum and natural gas properties	**1,373,000**
Working capital deficit	**(145,583)**
	1,227,417

3. *Property and Equipment*

	1999 $	1998 $
Petroleum and natural gas properties	**9,131,555**	7,104,746
Furniture and equipment	**188,210**	166,566
	9,319,765	7,271,312
Less accumulated depletion and depreciation	**2,003,809**	1,319,306
	7,315,956	5,952,006

During the year, the Company capitalized general and administrative expenditures of $325,646 (1998 - $Nil) directly related to international exploration and development activities.

4. *Operating Loan*

During the year, the Company secured a revolving line of credit to a maximum of $1,200,000. The operating loan bears interest at prime plus 1%. The operating loan is secured by receivables, a demand debenture for a minimum of $5,000,000 and a letter of undertaking not to encumber or dispose of assets, other than in the normal course of business, and to provide security under section 426 of the Bank Act and/or assign natural gas contracts. At December 31, 1999, the balance outstanding with respect to this facility was $828,000 (1998 - $75,000).

5. *Future Income Taxes*

The Company has adopted the new accounting recommendation of the Canadian Institute of Chartered Accountants, "Income Taxes". Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The standard has been adopted retroactively, resulting in the restatement of 1998 balance sheet amounts. The impact of this restatement was to record a future income tax liability of $870,392, decrease deficit by $48,764 and increase the carrying value of the Company's capital assets by $919,156 at December 31, 1998.

The provision for taxes varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to earnings before taxes as shown below:

	$
Earnings before taxes	285,285
Corporate income tax rate	44.62%
Computed income tax provision	127,294
Increase (decrease) resulting from:	
Non-deductible crown charges, net of ARTC	88,296
Taxable resource allowance	(69,191)
Non-deductible D&D	69,561
Resource allowance	(11,217)
Attributed Canadian royalty income	(29,218)
Non-capital loss carryforward recognized	2,334
Non-deductible meals, entertainment and life insurance	2,415
Other	(7,303)
	172,971

The Company has income tax losses available to be carried forward of $752,885. These losses expire at various times up to 2005. The future income tax benefit of these losses has been recognized in the financial statements.

The major components of the future income taxes liability at December 31, 1999 using a combined federal and provincial rate of 44.62% are as follows:

	Future Tax Liability $
Taxable temporary differences:	
Carrying value in excess of tax basis	1,458,863
Non-capital losses	(335,937)
Attributed Canadian royalty income carryforward	(74,637)
Differences in capital cost allowance claim for resource allowance	(4,927)
Balance, December 31, 1999	1,043,362

6. *Share Capital*

	Number of Shares	**Amount $**
Authorized		
Unlimited number of Class A common voting shares		
Unlimited number of Class B common non-voting shares		
Unlimited number of Class A preferred voting, 7%, non-cumulative, redeemable shares		
Issued		
Class A common shares		
Balance, December 31, 1997	22,357,898	**4,964,617**
Exercise of stock options during 1998	414,000	**41,400**
Acquisition of Monterey (Note 2)	9,441,667	**1,227,417**
Balance, December 31, 1999 and 1998	32,213,565	**6,233,434**

Escrowed shares

In conjunction with the Monterey acquisition, 1,613,333 shares are held in escrow and are eligible to be released October 31, 2000.

Stock option plan

Under the Company's stock option plan, the Company may grant options to its directors, officers and key employees to purchase Class A common shares ("Common Shares") from the Company at a fixed price not less than the fair market value of the stock on the day preceding the grant date. The options would be exercisable as to a maximum of 50% in each of the first and second years. The option's maximum term is five years.

	Options	Weighted Average Exercise Price $
As at December 31, 1997	1,534,000	0.26
Acquisition of Monterey (i)	1,009,433	0.19
Granted	1,652,500	0.14
Exercised	414,000	0.10
Forfeited	1,115,000	0.29
As at December 31, 1998	2,666,933	0.17
Granted	300,000	0.10
Exercised	–	–
Forfeited	1,188,600	0.19
As at December 31, 1999	1,778,333	0.15
Exercisable at December 31, 1999	1,628,333	0.15

(i) These were options of Monterey which were converted into options of the Company at the acquisition of Monterey as described in Note 2.

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Price(s) $	Options Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life (Years)	Exercise Price $
0.10 to 0.20	1,733,333	3.3	0.14
0.35	45,000	1.8	0.35
0.10 to 0.35	1,778,333	3.2	0.15

7. *Related Party Transactions*

During the year, the Company recovered general and administrative expenses totaling $24,000 (1998 - $466,837) from a corporation which has a director in common with the Company. At December 31, 1999, accounts receivable include balances owed from companies which have a director in common with the Company of $7,192 (1998 - $50,211).

8. *Loss and Cash Flows Per Share*

	1999 $	1998 $
Loss per share - basic and fully diluted	**–**	(0.01)
Cash flows per share - basic and fully diluted	**0.03**	0.01
Weighted average number of common shares		
Basic	**32,213,565**	25,990,688
Fully Diluted	**33,849,706**	27,455,215

9. *Commitments*

The Company has committed to a lease for premises expiring in August of 2001. The following minimum payments are required on the lease:

	$
2000	**55,400**
2001	**36,933**

10. *Segmented Information*

The Company sells its petroleum and natural gas products to various purchasers. For 1999, two large integrated purchasers accounted for 42% and 10% (1998 - 24% and 10%) of the Company's gross revenues.

The Company's core area of operation is in Canada and is currently investigating opportunities in other countries, which have not involved significant investment to date.

11. *Comparative Figures*

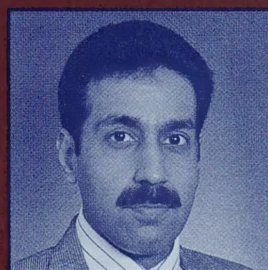
Certain of the comparative figures have been reclassified to conform to the presentation adopted for current year.

Corporate Information

Lutfur Rahman Khan
Chairman of the Board and Chief Executive Officer

Donald G. Campbell
Sr. Vice President Engineering & Production and Chief Operating Officer

George P. Bowley
Sr. Vice President Exploration & Development



Dr. Waseem Rahman
Sr. Vice President Administration

Omair Choudhry
Vice President Personnel & Finance

Directors

Lutfur Rahman Khan (2*) (3*)

Dr. Asif Ali Syed (1*)

Dr. David Shaw (2)

Donald G. Campbell (3)

Dr. Waseem Rahman (1) (3)

Arman Aziz (1) (2)

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Executive Committee
* Chairman

Officers

Lutfur Rahman Khan
Chairman, President and Chief Executive Officer

Donald G. Campbell
Sr. Vice President
Engineering & Production and Chief Operating Officer

George P. Bowley
Sr. Vice President
Exploration & Development

Dr. Waseem Rahman
Sr. Vice President
Administration

Omair Choudhry
Vice President
Personnel & Finance

Timothy S. Hoar
Corporate Secretary & General Counsel

Corporate Directory

Vancouver Executive Office
502 - 815 Hornby Street
Vancouver, BC
Canada V6Z 2E6

Tel: (604) 684 - 7372
Fax: (604) 684 - 2407

Calgary Operations Office
920, 707 - 7th Avenue S.W.
Calgary, AB
Canada T2P 0Z2

Tel: (403) 263 - 2472
Fax: (403) 264 - 7035

Overseas Office
No-2 Street 57
Sector F-8/4
Islamabad, Pakistan

Tel: 011-92-51-280 455
Fax: 011-92-51-260 698

Registrar and Transfer Agent

Valiant Corporate Trust Company
Calgary, AB

Banker

The Bank of Nova Scotia
Calgary, AB

Auditors

Deloitte & Touche LLP
Calgary, AB

Independent Engineers

Chapman Petroleum Engineering Ltd.
Calgary, AB

Legal Counsel

ProVenture Law
Calgary, AB

Stock Exchange Listing

Canadian Venture Exchange
Symbol "ISR"

produced by ion communications

INTERNATIONAL
SOVEREIGN ENERGY CORP.

Executive Office
502 - 815 Hornby Street
Vancouver, BC V6Z 2E6

Operations Office
920, 707 - 7th Avenue S.W.
Calgary, AB T2P 0Z2